Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 4 Agenda

Michael Machado, Chair
Tom McClintock
Christine Kehoe

HEARING OUTCOMES

Thursday, March 30, 2006
9:30 a.m. or upon adjournment of session
Room 112

Consultant: Brian Annis

Transportation

2600 California Transportation Commission

The California Transportation Commission (CTC) is responsible for the programming and allocating of funds for the construction of highway, passenger rail, and transit improvements throughout California. The CTC also advises and assists the Secretary of Business, Transportation and Housing Agency and the Legislature in formulating and evaluating State policies and plans for California's transportation programs.

The Governor proposes total expenditures of $2.1 million (no General Fund) and 14.0 positions for the CTC – a decrease of $2.1 million and an increase of 1.0 position from the revised current-year level.

The budget reflects reduced expenditures of Proposition 116 bond funds: $5.4 million was expended in 2004-05; $2.0 million was expended in 2005-06; and no funds are budgeted for grant expenditures in 2006-07. According to the CTC's *2005 Annual Report to the California Legislature*, $181.1 million in Proposition 116 funds remain unallocated due to project delays or cancellations. The majority of the balance ($121.3 million) is earmarked for the "construction of a guideway demonstration project" in Orange County. In July 2005, the Orange County Transportation Authority (OCTA) Board voted to discontinue the Orange County Centerline light rail project. The City of Irvine and the OCTA are currently pursuing the idea of other projects in the area that are Proposition 116 eligible.

Discussion / Vote Issues

1. **The Transportation Funding Picture (Informational).** The Legislative Analyst and the California Transportation Commission are prepared to make short presentations concerning the current transportation funding picture and describe what the anticipated funding level suggests for mobility improvements.

   Staff Recommendation: Informational item – no action needed.

Action: Informational only – no action taken.

2. **Toll Bridge Seismic Oversight Positions:** The Administration requests a net augmentation of $171,000 and one position to perform oversight work related to the Toll Bridge Seismic Retrofit Program. Additionally, one-half of an existing position would be redirected to this workload. Oversight responsibility was added to the CTC's workload with the passage of AB 144 (Chapter 71, Statutes of 2005), which enacted a financing plan to complete work on the new east span of the San Francisco - Oakland Bay Bridge. AB 144 requires the Executive Director of the CTC to serve on the Toll Bridge Oversight Committee. The new position would be funded by reimbursements from the Bay Area Toll Authority.

   Staff Comment: The CTC indicates that the Bay Area Toll Authority has agreed to a higher reimbursement level than that approved by the Department of Finance. Additionally, the CTC indicates the higher funding level, as well as the workload, would support an additional 2.0 positions.

   Staff Recommendation: Keep issue open for further discussions on the appropriate level of staffing.

Action: Kept open – the CTC will provide its revised workload and staffing estimates.

2640 Special Transportation Programs

The Special Transportation Program provides funding to the State Controller for allocation to regional transportation planning agencies for mass transportation operations and projects. Revenue comes from the sales tax on diesel fuel and a small portion of the sales tax on gasoline.

The Governor proposes funding of $235.0 million for Special Transportation Programs – an increase of $3.9 million over revised current-year funding. The funding level is based on the Department of Finance’s revenue forecast and existing statutory formulas. The increase in funding is primarily due to projections of higher Proposition 42 revenues.

Staff Recommendation: Keep this budget open because the Administration generally provides a new forecast of these revenues with the May Revision of the Budget.

Action: Kept open in anticipation of a May Revision update of the revenue estimates.

2660 Department of Transportation

The Department of Transportation (Caltrans) constructs, operates and maintains a comprehensive state system of 15,200 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The Department also has responsibilities for airport safety, land use, and noise standards. Caltrans' budget is divided into six primary programs: Aeronautics, Highway Transportation, Mass Transportation, Transportation Planning, Administration, and the Equipment Service Center.

The Governor proposes total expenditures of $11.5 billion ($2.3 billion General Fund), a decrease of $900 million from the revised current-year expenditures. The decrease in expenditures is primarily due to fluctuations in the Toll Bridge Seismic Retrofit Program. The budget reflects a full Proposition 42 (gasoline sales tax) transfer of $1.4 billion in 2006-07 and assumes transportation loan repayment of $1.0 billion in 2005-06 (through the sale of tribal gaming bonds) and $920 million in 2006-07 (through a General Fund transfer).

Expenditure by Program (dollars in thousands)	**2005-06**	**2006-07**	**$ Change**	**% Change**
Aeronautics	$8,406	$8,506	$100	1.2
Highway Transportation	10,937,373	$9,868,377	-1,068,996	-9.8
Mass Transportation	818,794	1,138,391	319,597	39.0
Transportation Planning	154,622	190,941	36,319	23.5
Administration	341,670	335,639	-6,031	-1.8
Equipment Program*	179,764	(179,148)*	na	na
Total	$12,440,629	$11,541,854	-$898,775	-7.2

* The Administration proposes to change the Equipment Program to a distributed cost system in 2006-07

Expenditure by Category (dollars in thousands)	2005-06	2006-07	$ Change	% Change
Personal Services	$1,871,905	$1,832,683	-$39,222	-2.1
Operating Expenses and Equipment	1,682,718	$1,414,038	-268,680	-16.0
Tort Payments	41,356	41,356	0	0.0
Debt Service (GARVEE bonds)	72,899	72,899	0	0.0
Local Assistance	2,536,515	3,311,234	774,719	30.5
Capital Outlay - Office Buildings	2,510	44,435	41,925	1670.3
Capital Outlay - Transportation Projects	6,190,387	4,794,209	-1,396,178	-22.6
Unclassified	42,339	31,000	-11,339	-26.8
Total	$12,440,629	$11,541,854	-$898,775	-7.2

Expenditure by Fund Type (dollars in thousands)	2005-06	2006-07	$ Change	% Change
General Fund	$1,345,148	$2,326,287	$981,139	72.9
Federal Trust Fund	3,362,881	$3,547,920	185,039	5.5
Special Funds and Bond Funds	4,884,934	3,913,729	-971,205	-19.9
Reimbursements	2,847,666	1,753,918	-1,093,748	-38.4
Total	$12,440,629	$11,541,854	-$898,775	-7.2

Vote-Only Issues

1. **Oakland District Office Building Seismic Retrofit (CO BCP #1).** The Administration requests $44.3 million (State Highway Account) to fund the construction-phase of the Oakland District Office building seismic retrofit. This retrofit would upgrade the building from a seismic Risk Level V to a Risk Level III, which is consistent with the State seismic program performance standards.

   Background: The building was constructed in 1991 and was designed utilizing the seismic provisions of the 1988 Uniform Building Code. While it is surprising that a building constructed in 1991 would rate a seismic level V, Caltrans reports that designers and construction firms associated with the 1991 project bear no liability, since the building was constructed to the codes at the time. Seismic research that occurred after the 1991 Northridge earthquake led to a revised understanding of the motion of earthquakes and this resulted in a change in the seismic risk level of certain buildings.

   Funding of $1.3 million was approved in the 2004 Budget Act to fund preliminary plans for this project, and funding of $2.2 million was approved with the 2005 Budget Act for working drawings. The construction cost estimate has been revised upward from $33.0 million estimated last year, to this request for $44.3 million. The Department of Finance indicates the construction cost has escalated because more seismic remediation work is required than originally anticipated.

Action: Approved on a 2-1 vote with Senator McClintock voting no.

(Staff recommends a consolidated vote on the "vote-only issues" – see page 7).

2. **Bay Area Toll Bridges – Changes Related to AB 144 (BCP #2).** The Administration requests a budget shift to reflect: (1) an increase in reimbursements of $616.0 million; (2) a decrease in Toll-Bridge Seismic Retrofit Account expenditures of $593.2 million; (3) a decrease in State Highway Account expenditures of $23.3 million; for a total net decrease in expenditure authority of $1.5 million. These changes adjust the budget to tie to the provisions of AB 144 (Chapter 71, Statutes of 2005), which enacted a funding plan to complete the new east span of the San Francisco Oakland Bay Bridge and other Bay Area toll-bridge seismic work.

   Detail: AB 144 shifted financial management of the Seismic Program from Caltrans to the Bay Area Toll Authority (BATA) and additionally shifted $1 of the existing toll from Caltrans to BATA. The effect of the toll shift is that Caltrans is now reimbursed by BATA instead of receiving the $1 portion of the tolls revenue into the Toll Bridge Seismic Retrofit Account. The net reduction of $1.5 million primarily reflects the transfer of certain toll accounting functions from Caltrans to BATA – with 11 positions also eliminated with this transfer.

Action: Approved on a 2-1 vote with Senator McClintock voting no.

3. **Alternative Fuel Vehicles (BCP #4).** The Administration requests a one-time augmentation of $4.0 million (State Highway Account) to purchase alternative fuel vehicles and install exhaust filter trap devices on heavy-duty trucks. Caltrans indicates these measures are necessary to comply with mandates from the South Coast Air Quality Management District (SCAQMD), which is charged with bringing Orange County and the urban portions of Los Angeles, Riverside, and San Bernardino Counties, into federal air quality compliance by 2010.

   Background/Detail: Last year, the Subcommittee approved a similar Finance Letter to augment the Caltrans budget by $3.7 million (one-time) for SCAQMD mandates. At the time, the Administration indicated there was an ongoing cost; however, they preferred to review the need on an annual basis. Caltrans indicates 18 highway sweepers and 29 heavy-duty trucks are due for replacement in 2006-07. The new vehicles would either use compressed natural gas (27 vehicles) or be retrofitted with specially fitted exhaust filter traps (20 vehicles). The exhaust filter traps for heavy duty trucks are less expensive that compressed natural gas vehicles ($8,000 versus $106,000 per vehicle); however, Caltrans cannot pursue that option unless it submits a Technical Infeasibility Certification Request to SCAQMD to justify that there are not enough compressed natural gas vehicles available.

Action: Kept open – Caltrans will provide additional detail.

4. **Local Bridge Scour Evaluations (BCP #10).** The Administration requests $927,000 ($821,000 federal funds, $106,000 State Highway Account) and 9.0 positions, to extend, by two years, limited-term positions that expire on June 30, 2006. The positions would evaluate local bridges for “bridge scour,” which is the erosion of soil surrounding a bridge foundation caused by water flow.

   Background: Federal regulations require the State to insure inspections, including scour evaluations, are performed on “all structures defined as bridges on all public roads.” This includes 12,128 local bridges in California. Through June 2006, it is estimated that Caltrans will have evaluated 7,980 local bridges for scour and that 2,470 bridges will remain. Caltrans indicates that if this request is approved, 1,740 bridges will remain to be evaluated on July 1, 2008.

Action: Approved on a 3-0 vote.

5. **Fuel Cost Increase (BCP #12).** The Administration requests a permanent augmentation of $5.2 million (State Highway Account) to address higher fuel costs. The Department indicates its current base is $26.5 million, which would be sufficient if fuel prices were in the range of $2.04 per gallon. Caltrans requests an additional $5.2 million which assumes fuel prices will average $2.33 per gallon in 2006-07 and thereafter.

   Background/Detail: Caltrans indicates the $2.33 price assumption ties to a July 2005 Federal Energy Information Agency projection. The Department consumed 13.6 million gallons of fuel in 2004-05. The Department of Finance’s forecast for gasoline price is $2.62 per gallon in 2005-06 and $2.31 per gallon in 2006-07.

Action: Approved on a 2-1 vote with Senator McClintock voting no.

6. **San Diego Route 125 Toll Road Maintenance (BCP #15).** The Administration requests a permanent augmentation of $912,000 in reimbursement authority and 9.0 positions to maintain the new Route 125 private toll road in San Diego County. The reimbursements offset $324,000 in State Highway Account expenditures such that the net change in expenditure authority is $588,000.

   Background/Detail: The Route 125 private toll-road project was initiated under the provisions of AB 680 (Statutes of 1989), which authorized toll-road demonstration projects. The Route 125 toll road is scheduled to open in the fall of 2006. Caltrans indicates it will be fully reimbursed for its maintenance work on this road, including $324,000 in overhead costs.

Action: Approved on a 3-0 vote.

Staff Recommendation: Approve the issues on the Vote-Only calendar.

Action on Vote-Only calendar: Separate votes were taken on each issue – see actions above under each individual issue.

Discussion / Vote Issues

1. **Section 26.00 Letter / Tort Payments (2005-06 Section Letter).** In a letter dated March 6, 2006, the Department of Finance reported to the Joint Legislative Budget Committee (JBLC) that Caltrans has requested a shift of funding among programs of $24.8 million in order to pay greater than anticipated tort claims in 2005-06. The budget for tort claims has remained unchanged in recent years at $41.4 million. The Section 26.00 letter requests to shift funds, primarily from the Maintenance and Capital Outlay Support Programs, to fund the unanticipated 2005-06 tort expenditures of $24.8 million. Upon request, Caltrans provided a description of the program impacts from the tort shift (see appendix A at the back of this agenda). The historical tort budget funding and actual expenditures are outlined in the following table.

	Budget Funding	Actual Expenditures	Shortfall
2000-01	$41.4	$65.1	$23.7
2001-02	41.4	62.4	21.0
2002-03	41.4	37.5	-3.9
2003-04	41.4	32.7	-8.7
2004-05	41.4	50.3	8.9
2005-06	41.4	66.7	25.3
Average	**$41.4**	**$52.5**	**$11.1**

Staff Comment: As is the case this year, Section 26.00 letters may involve significant budget changes. Section 26.00 changes are not generally heard in Budget Subcommittees, and as such do not receive the full legislative review provided for other budget changes. Since Caltrans has used the Section 26.00 letter process several times in the past six years to adjust the tort budget, the Subcommittee may want to consider a 2006-07 augmentation for tort expenditures or a permanent budget shift of funds from other programs into the tort budget.

Staff Recommendation: Keep the issue of 2006-07 tort funding open and direct Staff to continue discussions with the Administration to best forecast the 2006-07 expenditure need. Take no action on the Section 26.00 request (the request will be deemed approved by the Joint Legislative Budget Committee absent a JLBC notification to the contrary).

Action: Kept open the issue of 2006-07 tort funding for further analysis.

2. **Allocation of the 2005 Budget Act "Unallocated Reduction."** Last year the Administration requested, and the Legislature approved, a $50 million ongoing State Operations budget reduction for Caltrans. The reduction was unallocated; however, this year's Governor's Budget includes the allocation of these reductions across Caltrans programs. The purpose of the reduction was to generate savings through efficiencies that could then be used for capital projects. Caltrans has reported the reductions by program with a description of how the programs will achieve the savings (see appendix B at the back of this agenda).

   Staff Comment. Some of the efficiencies in the plan may take a few years to achieve and some of the reductions involve the deferral of equipment purchases which would not produce an ongoing savings. The Subcommittee may want to ask Caltrans if it will be able to achieve the efficiency goals in 2005-06 without affecting output. Additionally, the Subcommittee may want to request that Caltrans update the report for the Legislature in the fall, after the close of 2005-06, to indicate how the savings were ultimately achieved.

   Staff Recommendation: Approve the Administration's distribution of the 2005 Budget Act reductions. Request that Caltrans update the Committee this fall (no later than November 1, 2006) on how the 2005-06 budget reductions were actually achieved.

Action: Approved on a 3-0 vote. Caltrans agreed to report to the Subcommittee in the fall concerning the final 2005-06 program impacts of the reductions.

3. **Repayment of Transportation Loans**. The Administration proposes early repayment of $920.0 million of the $1.258 billion in Prop 42 funds borrowed by the General Fund in 2004-05. The allocation of this repayment is statutorily specified; however, the Administration proposes to amend statute to shift a portion of this early repayment from the Traffic Congestion Relief Program (TCRP) and the Public Transportation Account (PTA) to the State Transportation Improvement Program (STIP) and local streets and roads. After full repayment in 2007-08, the final allocation would be consistent with current law. The repayment of $920 million, under current statute and under the Governor's proposal, is as follows:

$920 Proposition 42 Loan Repayment ($ in millions)		
	Current Statute	**Governor's Proposal**
Traffic Congestion Relief Program	$678.0	$410.0
Local streets and roads	$96.8	$255.0
State Transportation Improvement Program (STIP)	$96.8	$255.0
Public Transportation Account for State Transit Assistance (STA)	$24.2	-
Public Transportation Account for STIP	$24.2	-
TOTALS	**$920.0**	**$920.0**

Staff Comment: The proposed repayment is associated with one of three outstanding transportation loans to the General Fund. The following table illustrates the three loans with historical and anticipated loan repayment dates.

Summary of Transportation Loans to the General Fund ($ in millions)					
Transportation Loans to the General Fund	**Loan Amount**	**Amount repaid to date**	**Repayment Proposed in 2006-07**	**Outstanding amount (after 2006-07) ***	**Current-law due date**
►Traffic Congestion Relief Fund loans (from 2001-02 & 2002-03)	$1,383,000	$183,000	$1,000,000	$200,000	none
►2003-04 Propositions 42 loan	868,000		0	868,000	June 30, 2009
►2004-05 Proposition 42 loan	1,258,000		920,000	338,000	June 30, 2008
Total	$3,509,000	$183,000	$1,920,000	$1,406,000	

* Interest is required, but not included in these calculations

Staff Comment (Continued): The Subcommittee should consider the following issues related to the Proposition 42 loan repayment:

- Is $920 million the appropriate amount for repayment in 2006-07?
- Does the Administration's prioritization of loan repayments reflect legislative priorities (i.e. trailer bill language to exclude the Public Transportation Account and State Transit Assistance from loan repayment in 2006-07)?
- Does the Legislature wish to statutorily specify repayment due dates and amounts in 2006-07, or leave that to the discretion of the Administration?

In addition to the discussion about Proposition 42 loan repayment, the Subcommittee may want to ask the Department of Finance to discuss the tribal gaming bonds and indicate if the Administration still feels the bonds can be issued in 2005-06. The Department of Finance should also be prepared to discuss whether the tribal gaming revenue already collected, can be used for transportation loan repayment (in advance of the bond issuance).

Staff Recommendation: Keep issue open for the May Revision. The Administration has historically revised the General Fund / Proposition 42 funding proposal with the May Revision, and more information on 2006-07 General Fund revenues will be available at that time.

Action: Kept open. The Subcommittee will hear this issue again after the Administration has updated General Fund revenue estimates with the May Revision.

4. **Trailer Bill Language.** The Administration requests the following trailer bill language, which is in addition to the language included in other agenda issues:

- Language to specify the interest repayment for loans repaid with tribal gaming assets.
- Language to remove the statutory due dates for the repayment of loans from the State Highway Account and the Public Transportation Account to the Traffic Congestion Relief Fund (Repayment of these loans will be delayed beyond the June 2007 and June 2008 due dates if tribal gaming bonds remain unsold because of litigation).
- Language to clarify legislative intent related to 2006-07 gasoline sales tax transfers.

Staff Recommendation: Keep all of these trailer bill requests open for further discussion to better understand the Administration's intent and to better understand the implications of the proposed changes. Note, the Administration's trailer bill "RNs" from the Legislative Council were first provided on March 22.

Action: Kept open for further review.

5. **2005 Ten-Year State Highway Operation and Protection Program (SHOPP) Plan.** The Administration submitted the 2005 SHOPP Plan to the Legislature on March 15, 2006 – over 10 months late. While Caltrans has made great improvements over the past year in delivering reports in a timely manner, it is unclear why this particular report was withheld for over 10 months. The lateness of the report prevented the Legislature from reviewing and commenting on the Plan prior to the California Transportation Commission's (CTC) adoption of the 2005 Fund Estimate (The State's five-year transportation expenditure plan).

   Background: Section 164.6 of the Streets and Highways Code requires Caltrans to produce a SHOPP Plan every two years – most recently in 2005. Statute required Caltrans to submit the SHOPP Plan to the CTC for review and comments by January 31, 2005; and to the Governor and the Legislature not later than May 1, 2005. Also, pursuant to statute, the SHOPP plan was built into the CTC's five-year "Fund Estimate," which was adopted September 29, 2005. Staff understands the legislative intent behind the statutory deadlines was to allow legislative review of the SHOPP Plan prior to the CTC's adoption of the Fund Estimate Plan.

   Staff Comment: The transmittal letter indicates that the release of the Plan was withheld while the Administration worked to develop a financial strategy that would address the funding needs identified in the Plan. However, the SHOPP Plan is statutorily tied to the Fund Estimate process, not the Governor's Budget proposals.

   The Subcommittee may want to ask the Administration to comment on whether it intends to honor the statutory due dates for the 2007 SHOPP Plan, or whether it would propose statutory change to adjust the report due date.

   Staff Recommendation: Informational – no action needed.

Action: Informational issue – no action taken.

6. **Specialty Facilities Appropriation Item.** The Administration requests an appropriation for specialty facilities (such as equipment facilities, maintenance facilities, material labs, and traffic management centers) of $54.7 million. A separate Budget Act appropriation was added by the Legislature with last year's budget to track specialty facilities expenditures as distinct from capital expenditures on highways and roadsides. Last year's appropriation was $14.0 million; however, an appropriation level in the range of $50 million is consistent with the expenditure level built into both the 2003 and 2005 State Highway Operations and Protection Program plans.

   Detail: The major expenditures anticipated for 2006-07 are as follows:
   - $22.2 million to construct a new Traffic Management Center in District 8 (Inland Empire).
   - $16.2 million for new Maintenance Stations in Fort Bragg and Red Bluff.
   - $9.0 million for "Phase III" of the facility repair project for the Sacramento Transportation Lab.

   Staff Comment: The Administration added a provision to the item to indicate that the funds would be available for appropriation through 2008-09. The LAO indicates this is duplicative as Budget Control Section 1.80 already provides this authority.

   Staff Recommendation: Approve the funding and direct the staff to make any technical corrections necessary to delete duplicative language.

Action: Approved on a 2-1 vote with Senator McClintock voting no.

7. **Non-Article XIX Funds – Transfer to the General Fund.** The Administration requests the transfer of $9.3 million from the State Highway Account to the General Fund to provide General Fund relief. The funds proposed for transfer are not subject to the restrictions of Article XIX of the Constitution, nor are they subject to Federal Highway Administration control.

Detail: The Department provided the following table that details the revenue sources for the non-Article XIX revenue. Under Street and Highway Code Section 183.1, the revenue is transferred annually from the State Highway Account to the Public Transportation Account. The 2004-05 revenue (which determines the 2005-06 transfer to the Public Transportation Account) is high due to the sale of some high-priced Caltrans properties. The revenue available for the 2006-07 transfer is anticipated to be $51.5 million, with $9.3 million transferred to the General Fund, and $42.2 transferred to the PTA in accordance with Section 183.1. The budget bill notes that the transfer to the General Fund is intended to constitute a reimbursement for debt service payments related to past transportation general obligation bonds. Similar transfers to the General Fund were approved for 2003-04 and 2004-05, but no transfer was proposed or enacted for 2005-06.

SHA Section 183.1 Proceeds Transfer (Actuals)
($ in millions)

		2000/01	2001/02	2002/03	2003/04	2004/05	2005-06
141200	Sales of Documents	$0.962	$0.927	$0.679	$0.549	$0.254	
151200	Condemnation Deposits	4.216	3.091	1.750	$1.889	$1.141	
152200	Rental of State Property	42.097	38.836	40.581	$32.440	$36.719	
152300	Miscellaneous Revenue from Use of Property/Money	23.786	10.888	14.512	$18.423	$46.576	
161000	Escheat Revenue	0.300	0.345	0.323	$0.585	$0.629	
161400	Miscellaneous Revenue	11.892	5.113	2.549	$2.770	-$4.390	
	Total Section 183.1 Proceeds	$83.254	$59.200	$60.395	$56.656	$80.930	
Transfer to:							
	T00046 Public Transportation Account per Streets and Highways Code 183.1 (following year)		$83.254	$59.200	$60.395	$56.656	$80.930

Staff Recommendation: Keep this issue open for the May Revision hearing – at that time the Subcommittee will be better able to assess the condition of the General Fund in 2006-07.

Action: Kept open. The Subcommittee will hear this issue again after the Administration has updated General Fund revenue estimates with the May Revision.

8. Maintenance Funding. The Administration requests a permanent increase of $105.3 million for highway infrastructure preservation. The Department's *2005 Five-Year Maintenance Plan* described the existing maintenance backlog and proposed to augment the State Highway Operation and Protection Program (SHOPP) by $105.3 million. This augmentation is not mentioned in the budget documents; however, Caltrans indicates the increase was built into the SHOPP appropriation. Historically, this preservation work would be budgeted and staffed in the Maintenance Program. Under the Administration's proposal, the work would be budgeted and staffed in the Capital Outlay Support Program. As such, no new positions are budgeted for this workload – instead staffing changes would be included in the May Revision Finance Letter for the zero-based Capital Outlay Support staffing.

Staff Comment: The proposed budget represents both an augmentation and workload shift, from the Maintenance Program to the SHOPP (Capital Outlay Support Program).

Caltrans indicates the **advantages** of the shift are: (1) increased expenditure flexibility for the Department and the California Transportation Commission (CTC); and (2) an improved workload match for Engineers in the Capital Outlay Program versus the Maintenance Program.

Staff sees the **disadvantages** of the shift are: (1) reduced legislative oversight (Budget Change Proposals are submitted for Maintenance Program augmentations, but not for SHOPP); (2) additional time for legislative position review (new positions for the Maintenance Program are generally detailed with the January 10 Governor's budget, while Capital Outlay Support positions are detailed in the May Revision); and (3) budget consistency (since the shifted "preservation" workload has historically been included in the Maintenance Program, year-over-year budget comparisons will be less relevant).

LAO Recommendation: In the *Analysis of the 2006-07 Budget Bill*, the LAO recommends that the Legislature restore budget bill language which the Administration omitted that segregates funding for major pavement maintenance contracts so the funding cannot be redirected for another purpose:

Of the funds appropriated in this item, $81 million is for major maintenance contracts for the preservation of highway pavement and shall not be used to supplant any other funding that would have been used for major pavement maintenance.

Staff Recommendation: Staff recommends the augmentation be approved; but that the "maintenance" workload remain in the Maintenance Program, and accordingly, that the Subcommittee reduce the SHOPP appropriation by $105.3 million and increase the Maintenance Appropriation by $105.3 million. Additionally, staff recommends that the LAO budget bill language be adopted.

Action: Kept open. The Chair indicated support for the Staff Recommendation; however, Caltrans requested the issue be kept open so it could supply detail on the staff augmentation that is associated with this request.

9. Environmental Enhancement and Mitigation (EEM) Program. The Administration is proposing no funding for the EEM program in 2006-07. The EEM Program funds grants for projects such as hiking and biking trails, landscaping, and the acquisition of park and wildlife areas.

Background: The EEM Program was initiated by Chapter 106, Statutes of 1989, which provided for annual transfers of $10 million from the State Highway Account (SHA) to the EEM Fund for a ten-year period. At the expiration of the ten-year period, the Legislature decided to continue funding at the $10 million level and current statute cites the intent of the Legislature to allocate $10 million annually to the EEM Program. Due to declining SHA balances, no transfers were made from the SHA to the EEM Fund in 2003-04 and 2004-05. However, there was an existing balance in the EEM Fund of about $10 million, and appropriations were included in the 2003-04 and 2004-05 Budget Acts to allow for EEM Program grants of $5 million in each year.

The Legislature augmented the Governor's proposed 2005-06 budget by $10 million (State Highway Account) for EEM; however, the full amount was vetoed by the Governor. The Governor's veto message indicated, "This augmentation is not the best use of scarce transportation resources."

Staff Comment: EEM funding has also been discussed for inclusion in the infrastructure bonds.

Staff Recommendation: Restore EEM funding at the $10 million level. Specifically, add a transfer item of $10 million from the State Highway Account to the EEM Fund and add a $10 million EEM Fund appropriation.

Action: Augmented EEM funding by $10 million on a 2-1 vote with Senator McClintock voting no.

10. **Transportation Permits Management System Reappropriation (BCP #17).** The Administration requests a reappropriation of up to $5.25 million (State Highway Account) to extend the liquidation period of funds approved to implement the Transportation Permits Management System (TPMS). The TPMS is the automated system which will approve routes and issues permits for oversized loads.

    Background / Detail: TPMS is designed to increase highway safety by reducing human error in the oversized-load permit generating process. Past errors in the issuance of oversized permits have contributed to bridge hits and other accidents. This project was the subject of a special Senate Budget Subcommittee #4 oversight hearing in February 2005. Last year, Caltrans expected to have the project fully implemented by the end of 2005.

    Staff Comment: Flaws were discovered in the system the vender delivered last year. In February 2006, the project team finalized all requirements; the list of defects; change orders; and incorporated the required levels of effort into the project schedule. Additionally, Caltrans and the vender are negotiating a contract amendment that will place financial penalties on the vendor if the system is not acceptable by September 30, 2006. Staff understands the vendor is continuing to work to fix the problems and that Caltrans now hopes to have the system fully in operation by November 29, 2006.

    Staff Recommendation: Approve the reappropriation request.

Action: Approved request on a 2-1 vote with Senator McClintock voting no.

11. **Integrated Financial Management System (BCP #6).** The Administration requests multiyear funding of $20.8 million ($3.1 million in 2006-07 – all State Highway Account) and 12 limited-term positions for the Integrated Financial Management System (IFMS) information technology (IT) project. This project would replace the 22-year old legacy system known as Transportation Reporting and Accounting Management System (TRAMS). The BCP and Feasibility Study Report (FSR) note annual savings, upon completion of the project, of 35 positions and $6.0 million. It should be noted that the post-implementation budgets are not adjusted for this savings with the approval of this BCP. The Administration would have to come forward with a "negative" BCP in 2010-11 to reduce funding in the range of $6.0 million – otherwise that savings will be retained in the budget and available for expenditure for other purposes.

Background / Detail: The IFMS would establish the enterprise infrastructure to support the Department's new financial management system and implements the applications supporting core financial system processes, including general accounting and budget management processes. IFMS would provide a common platform that could be used for future integration projects (if approved in future budgets) such as a procurement and inventory system. This system was first proposed in 2002-03; however, funding was denied by the Legislature while Caltrans completed the Caltrans Integration Study (CIS). The purpose of CIS was to produce a Caltrans-wide enterprise information technology plan such that future IT projects could be effectively integrated at a lower cost. The risk levels by category for this project are identified in the FSR in the medium to high range.

Caltrans notes that the current system has over 100 financial subsystems feeding into and out of TRAMS. Since financial data are not stored in a single source, reporting to external and internal stakeholders is labor intensive and has resulted in Caltrans being unable to accurately report expenditures against a particular project. Caltrans has been unable to meet the reporting requirements of AB 1012 (Chapter 783, Statutes of 1999), which include transportation project financial information sharing with local entities.

The Feasibility Study Report indicates six primary business problems addressed by this proposal:

- Limited Capability to Ensure Accountability for Federal and State Funds
- Inability to Track Financial Performance Outcomes/Measures
- Limited Visibility into Costs and Impacts.
- Inefficient Financial System Business Processes.
- High Financial Management IT Infrastructure Costs.
- Inability to Access Timely Financial Information.

Staff Recommendation: Approve the request.

Action: Approved on a 3-0 vote.

12. **Construction Management System (BCP #7).** The Administration requests multiyear funding of $21.0 million ($950,000 in 2006-07 – all State Highway Account) and 22 limited-term positions for the Construction Management System (CMS) information technology (IT) project. This project would replace the 30-year-old legacy system known as Contract Administration System (CAS). The Feasibility Study Report (FSR) notes in the fiscal tables annual State Operations savings, upon completion of the project, of $136,000 (and no change in positions). However, the BCP notes post-implementation annual savings of $18.8 million in Capital Outlay. If the savings is realized, the savings would primarily be available for additional project expenditures, as opposed to a reduction in State Operations costs.

Background / Detail: The proposed CMS would be implemented through the purchase and transfer of an existing system from the American Association of State Highway and Transportation Officials (AASHTO). The system would then be modified to meet the Caltrans-specific construction requirements and departmental technical standards. The risk levels, by category for this project, are identified in the FSR in the low to medium range.

The problems with the current system are identified as follows:

- The current system (CAS) is unable to track expenditures on a project by date, resulting in overpayments and contract overruns.
- CAS is unable to track subcontractors, allowing missed payments to subcontractors.
- CAS is unable to view or track all project expenditures.
- Manual calculations made by the Resident Engineer are subject to variation in method and accuracy.

The $18.8 million in annual savings is primarily related to the following:

- Reduction in Federal Highway Administration (FHWA) Federal-Aid Ineligibility Notices. These are refunds of federal funds when the FHWA audits project documents and finds Caltrans is out of compliance with federal regulations – approximately $5 million in annual savings.
- Reduction in claims payments to contractors. The FSR indicates CMS would allow the Resident Engineer to better assess whether a claim has merit – approximately $6.7 million in annual savings.
- Reduction in arbitration suit payments. CMS would allow the Department to better defend claims in arbitration and reduce settlement payments by approximately $3.2 million.

Staff Recommendation: Approve the request.

Action: Approved on a 3-0 vote.

13. **Dismantle the Internal Service Fund (BCP #16).** The Administration requests approval of trailer bill legislation to dismantle the Internal Service Fund (ISF), known as the Equipment Service Fund (ESF). The Equipment Program would continue as a distributed program. The ESF never produced the anticipated savings and dismantling the ISF will also eliminate the rental rate development process and the extensive fiscal and legal accounting requirements associated with the ISF.

    Background: The ISF was established in 1997-98 for the cost recovery of the Department's mobile fleet equipment and services. The vision was for the Division of Equipment to become a full rental agency operating as a private business model with the ability to expand or contract to meet customer's needs, serve other tax-supported entities and to provide cost measures for managing the fleet. Caltrans has been unable to either reduce overall usage by better distributing the fleet between programs or to rent idle equipment to other public entities as originally intended when the ESF was created.

    In the 2005 Budget Act, the Administration and the Legislature agreed to budget bill language and funding for the Office of State Audits and Evaluations (within the Department of Finance) to evaluate the appropriateness of operating the Equipment Service Program as an internal service fund. A report to the Legislature was due from the Department of Finance on January 10, 2006. This report was submitted on March 24, 2006.

    Staff Recommendation: Keep open – the report from the Office of State Audits and Evaluations was not provided until March 24, 2006, and Staff has not had sufficient time to review, ask follow-up questions, etc.

Action: Kept open for further analysis.

14. **Owner Controlled Insurance Program (BCP #9).** The Administration requests an augmentation of $1.4 million (State Highway Account) and 1.0 position to implement the statewide Owner Controlled Insurance Program (OCIP) as a pilot program with 82 projects. With the OCIP, the Department, as the owner of the highway, would purchase major insurance coverage for its construction projects. Under the current process, Caltrans pays insurance costs indirectly through inclusion of the costs in the contractors' bids. The funding of $1.4 million would only cover the cost of hiring a consultant – the cost to purchase the insurance could exceed $120 million (according to the Caltrans). Caltrans believes the $120 million plus in extra insurance costs would be more than offset through lower bids – the three year savings is estimated in the range of $40 million to $65 million.

LAO Recommendations: In the *Analysis of the 2006-07 Budget Bill*, the LAO finds that "the cost savings that could be realized through an OCIP are much more uncertain than Caltrans indicates." Accordingly, the LAO recommends a smaller pilot and the following budget bill language:

> *Up to $1.4 million appropriated in this item is available for support of Caltrans' Owner Controlled Insurance Program to administer insurance coverage for contractors on up to 15 projects.*

Additionally the LAO recommends the Legislature adopt the following supplemental report language:

> *By April 1 of 2007, 2008, and 2009, respectively, Caltrans shall report to the Joint Legislative Budget Committee and the policy committees on transportation on the following concerning the Owner Controlled Insurance Program (OCIP):*
>
> *(1) The type and value of projects included in the pilot.*
>
> *(2) The amount that Caltrans would have paid contractors for insurance coverage in the absence of an OCIP, as identified in contractors' bid statements.*
>
> *(3) The amount the department paid in insurance premiums, deductibles, program administration, and any other OCIP-related costs incurred during the pilot.*
>
> *(4) The estimated net cost or benefit of implementing the pilot.*
>
> *(5) An assessment of the projects that were best suited for inclusion in an OCIP and the projects that were least well suited, in terms of cost effectiveness.*

Staff Recommendation: Keep this issue open to further examine the savings assumptions.

Action: Kept open for further analysis.

Appendix A

Program Impacts of the $25 million Redirection for Tort Payments

Program	Proposed Reduction	Proposed Reduction Effects/Impacts
Capital Outlay Support	$10,209,446 in Personal Services (PS)	COS is not currently able to fill all of its positions regardless of extensive recruiting efforts.
Local Assistance Support	$377,145 in PS	Local Assistance is not currently able to fill all of its positions as timely as expected.
Program Development	$7,680 in PS $247,103 in Operating Expenses (OE)	Program Development will delay lower priority research contracts or split finance contracts where possible.
Legal	$228,557 in OE	Legal will delay paying invoices for expert witnesses, court reporters, etc.
Traffic Operations	$1,589,125 in OE	Traffic Operations will reduce Transportation Management Congestion facility and equipment support contracts; delay lowest priority ramp metering projects; and delay Planned Lane Closure implementation of lowest priority projects.
Maintenance	$9,610,398 in OE	Maintenance will delay material orders that are not for immediate use and that do not affect project delivery. Delay replacement of communication equipment. Split-finance some contracts to reduce costs in the current year. Pavement contracts will not be affected.
Mass Transportation	$1,143 in OE	Mass Transportation will delay office equipment replacement purchases.
Rail	$2,362 in OE	Rail will delay lower priority training contracts.
Planning	$270,822 in OE	Planning will delay environmental contracts and reduce Project Initiation Documents operating expenses by reducing non-critical site visits.
Administration	$2,456,189 in OE	Admin Program will defer lower priority “general expense” purchases to 2006-07. In addition, certain special repair and maintenance projects for our facilities (statewide) will be deferred to

		the subsequent fiscal year.

Appendix B

Program Impacts of the $50 million Efficiency Reduction

The Department undertook a widespread effort to identify true on-going efficiencies, not across-the-board reductions or reduced service in high priority activities. Program and district managers were challenged to find opportunities to streamline processes, procedures and organizational structures, eliminate low priority work, and reduce overhead. Managers were further encouraged to find creative ways to accomplish more with current resources and look for opportunities to generate revenues and avoid future costs.

Program	Reduction	Reduction Effects	Program Impacts
Aeronautics	$.004 million	Reduce Operating Expense & Equipment (OE & E) budget.	Reduce costs for electronic data processing services acquired through Teale by eliminating unnecessary accounts and continuing to identify obsolete services.
Capital Outlay Support	$22.471 million and 99.0 Personnel Years (PYs)	Reduce district project delivery resources and Headquarters (HQ) staffing by improving the support to capital ratio, and continuously looking for process improvements that lead towards efficiencies.	The Capital Program is strategically developing tasks to reduce the support cost of the program. While these tasks are projected to be achieved over multiple years, incremental efficiencies will be rolled into our project support budgets as they occur. The ultimate success of these efforts is largely dependent on a stable fund source for transportation projects. Unstable funding with years of inadequate sources for transportation projects with intermittent spikes does not lend itself to efficiencies in delivering transportation improvements. The Program targeted the following areas and specific dollar amounts for efficiencies this fiscal year: 1. Reduced $10M in operating expense to become more efficient in support to capital ratio. This includes goals of reduced efforts to deliver projects and process improvements. 2. Reduced $8M and 99 PY's in the Traffic Congestion Relief Fund (TCRF)

Capital Outlay Support (cont.)			program. The TCRF dollars were primarily programmed to fund the Capital component of projects. Very little TCRF is programmed for Caltrans support. The support for these projects comes primarily from the State Transportation Improvement Projects (STIP). Therefore, the Department received more TCRF funding for support than we had programmed authority for in FY 05/06. 3. Reduced $2M in Category 12 - consultant and professional services contracts - the savings came by reducing our level of service contracts by $2M. 4. Reduced $2.5M - this is a result in IT efficiencies.
Local Assistance Support	$.101 million	Consolidate oversight and supervisory responsibilities to improve supervisory to staff ratio. Reclass lead level positions to staff level.	The program has implemented its efficiency savings by merging two offices into one in Headquarters, reclassing supervisory and lead positions by reprioritizing and distributing workload, and deferring the replacement of aging office equipment.
Program Development	$4.549 million and 1.0 PY	Reduced $4.279 million in research projects and $270,000 in training and planning budget.	Convert Geographic Information Systems (GIS) training from sole source consultant, Environmental Systems Research Institute (ESRI), to in-house training. Provide ESRI training where needed for advanced or power users. In-house trainers/ trainees travel to districts/regions around the State to reduce travel for the trainer and to provide most training at the user's district. Provide training courses on-line, via competitive bid contract, ESRI sole source contract, and in-house both in Sacramento and in the Districts to provide GIS skills to coordinators and users. The outcome is improved access to training that meets the differing types of training required at a lower cost.

Legal	$.346 million	Utilize less expensive and better internet and technology.	Legal has migrated much of its legal research materials from paper to electronic media and renegotiated its contracts and future print reductions. Use of a phone-in process in lieu of making appearances has saved travel expenses. The rest of the savings have been achieved through delaying purchase of contemporary trial presentation software and hardware.
Traffic Operations	$.747 million	Streamline office equipment purchases.	Prioritized office equipment purchases to address more critical needs and delayed lower priority purchases. Improved process for equipment purchases resulting in increased staff time to devote to higher priority projects.
Maintenance	$15.549 million	Utility efficiency, reduce warehouse inventory and budget, improve contract management by timely invoice payment and eliminate encumbrance in excess of final need.	Utility efficiency achieved by implementing energy efficient strategies (i.e., retrofitting signals and ramp meters with Light Emitting Diode (LED) technology. Reduction of warehouse budget achieved by eliminating unnecessary items, improved forecasting and "just-in-time" procurement methods. Reduction has forced Districts to expend resources from their budgets by redirecting from lower priority work; more lead time is required for purchasing, longer turn around on receiving materials. Improved contract management achieved by providing training to reinforce encumbrance management and reducing the amount encumbered in on call service contracts. Impacts are to lower priority work.
Mass Transportation	$.336 million and 1.0 PY	Reduce OE & E budget, reduce temporary help and overtime, improve manager to staff ratio.	Reduced staff available for Proposition 116 activities. Reclassified two Supervisory positions to the Associate level to improve the Management and Supervisor ratio. Hired an intermittent office assistant

			instead of a permanent word processor, and eliminated all overtime. Travel and training requests have been prioritized and management approves these requests at mandated levels only.
Rail	$.521 million	Streamline organizational structure and improve efficiency in purchasing.	Reduced the number of Special Studies required for management of intercity rail program. Reduced outreach efforts to Local Agencies needed to implement capital projects. Reduced efforts to develop new project proposals for intercity rail capital projects.
Planning	$.727 million	Federalize current state-funded positions and reduce contract management costs.	State Planning and Research work program was revised to gain approval for activities to be federally funded. HQ and district team met to streamline the allocation process and district expectation agreements. The redirected PYs saved were used to staff new and higher priority workload.
Administration	$4.649 million and 16.1 PYs	Reduce communication costs and improve management costs, streamline accounting efforts, absorb workload and return resources to Traffic Congestion Relief Fund, and improve manager to staff ratio.	Consolidating staff into existing office facilities and eliminating leases; eliminating unnecessary telephone lines and reducing cell phone usage; reducing supervisory positions by reprioritizing and redistributing workload to existing staff; reducing hardcopy reproduction of manuals and increasing electronic distribution; eliminating TCRF funding source from Administration and reprioritizing and redistributing workload to existing Accounting and Human Resource staff; eliminating rental of unused equipment at the warehouse.
All Programs – Information Technology component	Incorporated into Program reductions above.		Reduce costs for electronic data processing (EDP) services acquired through Teale by eliminating unnecessary TS1 accounts and continuing to identify obsolete services. Centralize IT procurements to maximize savings, consolidate servers and standardize help desk tools. No noticeable impact to the clients.